



*Newfoundland
& Labrador*

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**Report on Potential Savings
Arising From
Various Product Changes
And Other Considerations
Involving
Automobile Insurance
In
Newfoundland & Labrador**

To the:
Minister of Government Services
Honourable Dianne Whalen

March 8, 2004

Public Utilities Board
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INTRODUCTION

This report has been prepared by the Board of Commissioners of Public Utilities pursuant to provisions of the *Automobile Insurance Act* and the *Public Utilities Act* following a study into the cost of private passenger automobile insurance in the Province of Newfoundland and Labrador. The study was undertaken at the request of the provincial government and was intended to measure the impacts on loss costs and premiums of specific changes to the automobile insurance products available in the province.

Since 1977 the Board has been responsible for the regulation of automobile insurance rates. This regulation involves establishing industry-wide benchmark rates using information gathered by the IBC under the direction of the Statistical Plan which is mandated by Government through the Superintendent of Insurance. For purposes of rating automobile insurance, the province is divided into three distinct rating territories which can be generally described as follows:

- Territory 1- Greater Avalon (consisting of the City of St. John's, including that part of the Island east of Highway 202, being a line between the communities of Old Shop and Chapel Arm in Trinity Bay to the North and between Long Harbour and Ship Harbour in Placentia Bay in the South.)
- Territory 2 - Remainder of the Island
- Territory 3 - Labrador.

Additional information related to the Board's legislative authority, the benchmarking system, and the Statistical Plan is contained in Appendix 1.

TERMS OF REFERENCE

The specific Terms of Reference for the Board's study are as follows and consider the impact on automobile insurance rates of:

1. A restriction on tort recovery for pain and suffering for minor injuries, based on a definition of minor injury to be provided by the Department of Justice, with caps of \$0, \$2,500, \$4,000 and \$7,500.
2. A change in the recovery of economic loss from a gross income basis to a net income basis.
3. Reduction of awards by amounts received by claimants from other collateral sources such as private health care plans and other insurance plans.
4. The elimination of age, gender and marital status as rating factors.

This part of the study will provide:

1. A high-level summary of automobile insurance reforms either implemented or under consideration in Canadian jurisdictions with similar industry operating characteristics, having particular focus on savings resulting from limitation of payouts for pain and suffering in tort awards.
2. An examination of the relationship and adequacy of current insurance rates and component costs of providing automobile insurance under the existing system. The findings of this examination will be used to establish a baseline or benchmark against which potential savings can be measured.
3. An assessment of the range of bodily injury settlements for soft-tissue type injuries, the percentage of injuries that are soft-tissue, and the proportion of total costs that are soft-tissue related.
4. An estimate of the potential impact on rates of each of the reform initiatives identified above.

The Terms of Reference were framed on the basis of government providing an appropriate definition of the term "minor injury" on which item 1, the capping of pain and suffering awards, was to be modeled. Following various attempts to develop an acceptable definition on which to proceed, the Board has undertaken its study measuring the impact on loss costs and premiums through the use of a deductible option. A deductible option would reduce the overall amount of an award or settlement by the deductible amount. For purposes of this report the following deductible options: \$7,500, \$10,000, \$12,500 and \$15,000 were modeled to determine realizable savings while savings for \$2,500 and \$5,000 were estimated using the modeled results.

MARKET STRUCTURE AND RATES

The automobile insurance market in Newfoundland and Labrador is relatively small in comparison to other provincial jurisdictions excepting Prince Edward Island.

The automobile insurance market in the province is highly concentrated. The 2002 Report of the Superintendent of Insurance listed 53 companies operating throughout the province. Of these the top 11 companies wrote approximately 82% of all business written, the top 20 wrote 95% and the top 25 wrote 98% of the market.

The number of written insured private passenger vehicles has grown by 2.5% over the five year period 1998 - 2002 while the total written premiums has increased by 21.1%, with a 6.9% increase in 2001 over 2000 and a further 13.2% increase in 2002 over 2001. For commercial vehicles the changes have been more dramatic. Written vehicles increased only 3.4% over the five year period while total written premiums increased 43%, with a 17.6% increase in 2001 over 2000 and a further 10.4% increase in 2002 over 2001.

Benchmarks consist of a range of rates which are determined using actuarial analysis and reflect the total costs for the industry of providing various components of the insurance product. Overall benchmark rates established by the Board have not fluctuated appreciably during the six-year period (1998-2003). Benchmarks are prepared in detail for each type of coverage which include Third Party Liability, Collision, Comprehensive, Specified Perils, Accident Benefits, and Uninsured Motorist. For this same period (1998-2003) Appendix 2 contains graphs illustrating benchmarks by territory for each major coverage i.e. Third Party Liability, Collision and Comprehensive. These graphs compare the annual established benchmarks with both the industry average premium and the industry average loss costs.

REFORMS IN OTHER JURISDICTIONS

Below is a summary of the current status of reform initiatives undertaken in other Canadian jurisdictions where private companies provide the insurance product. In remaining jurisdictions public automobile programs exist which does not constitute a part of the mandate for this study. The reforms varied by jurisdiction and range from rate freezes to roll backs, removal of certain rating characteristics involving age, gender and marital status and imposing fines on insurers for vacating the market without adequate notice. The common thread in these jurisdictions is that intervention by government was seen as necessary in order to stem the rate of increase evidenced in the price of automobile insurance products sold in each jurisdiction.

Nova Scotia

Until recently, regulation of automobile insurance rates for the regular market in Nova Scotia has never been undertaken. During the Fall of 2003 the Nova Scotia Utility and Review Board conducted a hearing into automobile insurance in the province. Amongst its other findings the Board found that current (2002) auto insurance rates in the province were as much as 20% inadequate in relation to industry loss experience. Following release of the Board's report of findings the provincial government instituted: a 20% roll back on rates that were in effect as of May 1, 2003; froze rates for a period of 12 months commencing November 1, 2003; established a new Automobile Insurance Rate Review Board; implemented a \$2500 cap on awards for pain and suffering based on a definition of minor injury; required insurers to provide six months advance notice of their intent to withdraw from the market or face a \$1,000,000 penalty; eliminated age and marital status as rating variables; and, introduced regulations governing underwriting guidelines prohibiting the use of any guideline or other factor not associated with the risk i.e. lack of employment, credit history.

Industry response in Nova Scotia was quite critical of Government during the early implementation of these initiatives particularly surrounding the requirement that in order to be classified as a minor injury the injury would have to be resolved within 12 months of the accident. Several companies threatened to withdraw from the marketplace but with the

exception of one small writer, other companies have not followed through to date. Subsequent regulations were implemented to address these industry concerns.

New Brunswick

Historically in New Brunswick, the province's Public Utilities Board regulated automobile insurance rates on a prior approval basis up to 1998 at which time the process was changed to one of file and use. Similar to Nova Scotia, the provincial government referred the matter of automobile insurance rate increases to its Public Utilities Board for a review and during the Summer and Fall of 2003, the Board undertook a hearing into the issue. While making no comment on the adequacy of rates, the Board did find that a 37-39% reduction in discounted loss costs could be achieved by the introduction of the injury regulations proposed by the provincial government. The reform initiatives introduced in New Brunswick included: a requirement for insurers to file and justify new rates with the NBPUB by August 15, 2003 or face a 20% roll back on rates; implemented a \$2500 cap on awards for pain and suffering based on a definition of minor injury; required insurers to provide six months advance notice of their intent to withdraw from the market or face a \$1,000,000 penalty; eliminated age as a rating variables; and, introduced regulations governing underwriting guidelines prohibiting the use of any guideline or other factor not associated with the risk.

Industry response has generally been one of acceptance with the New Brunswick Public Utilities Board reporting some insurers have expanded business writings to areas previously avoided. The IBC has made a new no frills automobile insurance proposal to the provincial government.

Ontario

Regulation of automobile insurance rates in Ontario has been in place for quite some time and is the responsibility of the Financial Services Commission of Ontario. Upon taking office, the new Ontario government announced an immediate rate freeze on automobile insurance rates retroactive to October 23, 2003. The freeze was to remain in place until government developed a plan of reforms with the view to reducing rates by 10 - 20%. To date the government has not introduced a reform package. On January 9, 2004, the Superintendent of Insurance ordered

companies to file rates with a 10% reduction on or before January 23, 2004, otherwise a fully supported actuarially filing was required.

Industry reports insurance companies feel that more reform of automobile insurance is needed to achieve full cost savings for the industry and rate reduction for the policyholders.

Prince Edward Island

Until recently, regulation of automobile insurance rates for the regular market in Prince Edward Island has never been undertaken. The provincial government passed legislation giving the Island Regulatory and Appeals Commission jurisdiction to regulate rates. At the same time, the government: froze automobile insurance rates at current levels until April 1, 2004, companies were required to file revised rates by Jan 15, 2004 reflecting the IBC announcement that rates could be reduced by 13% with reform; effective April 1, 2004, adopted a cap on pain and suffering of \$2,500 in conjunction with a definition of minor injury; and, removed age of operator and age of vehicle as rating variables. Underwriting guidelines were regulated to prevent the use of a guideline or a factor unrelated to the risk.

Most insurance companies complied with the directive to file new rates prior to January 15, 2004.

Alberta

A reform package was recently passed by the provincial legislature but has yet to be implemented. The proposed changes include: a cap on pain and suffering of \$4000 for minor injury, which has yet to be defined; government set benchmark rates; age, gender and marital status may still be used as rating variables provided the rates do not exceed the benchmarks; and, an eighteen month rate freeze effective October 2003. Underwriting guidelines were regulated to prevent the use of a guideline or a factor unrelated to risk.

A major insurer writing non-standard automobile insurance in the province has commenced legal action against the provincial government for lost revenue as a result of the rate freeze. This case has been postponed to enable both parties to have more discussions over the issue. Facility Association is looking at the possibility of establishing a risk sharing pool in Alberta similar to that in Ontario.

ADEQUACY OF CURRENT RATES

2004 Projected Benchmark Rate Changes

In accordance with the Terms of Reference the Board was asked to conduct an examination of the relationship and adequacy of current insurance rates and component costs of providing automobile insurance under the existing system. This examination was used to establish a baseline or benchmark against which potential savings can be measured. The Board's Actuarial Consultants have provided their most recent review of loss costs and resulting rates in the 2004 Benchmark Report. This report is based on the loss costs of the industry reported for accident year 2002, the latest year for which data is available. The Table of Contents for this report is provided in Appendix 3. The report itself, comprising 132 pages, is not attached but may be provided to interested parties upon request. The following table summarizes the percentage rate changes projected in the report.

Projected Rate Changes 2004 Benchmarks Without Product Reform				
	Territory 1	Territory 2	Territory 3	% of Total Premium¹
Third Party Liability	5.4%	1.5%	7.4%	47-66%
Collision	-27.4%	-37.1%	-29.4%	15-28%
Comprehensive	-18.8%	-18.8%	-18.8%	8-13%
Specified Perils	-16.6%	-16.6%	-16.6%	2%
Accident Benefits	4.0%	-10.8%	-10.8%	7-9%
Uninsured Motorist	-10.8%	-10.8%	-10.8%	2%
Total	-1.8%	-9.7%	-7.4%	100%

Given that the product changes under consideration by government at this time impact only on the Third Party Liability and Uninsured Motorist coverages, the remaining rate changes projected in the 2004 Benchmark Report may be passed on to consumers subject to approval by the Board.

¹ These percentages represent the portion that each coverage bears to the total cost of a full coverage automobile insurance policy excluding taxes and endorsements. These vary by Territory within the range.

The projected 2004 increases for Third Party Liability are based on the most recent loss costs of industry resulting from the existing insurance products. If the product changes under consideration alter the manner in which claims are settled and reduce the industry loss costs on a go forward basis, then the projected 2004 Third Party Liability rates will no longer be relevant.

Current Rate Levels

In order to assess the adequacy of current rates, Board staff undertook a review of the filed rates of the top 11 companies writing automobile insurance in the province. Based on their reported Direct Premiums Written (DPW) for 2002, these companies account for approximately 82% of all automobile insurance business transacted in the province.

The filed rates were then plotted against the proposed 2004 Benchmarks to determine where, within the range of reasonable rates, the respective rates fell. Further details on these findings are outlined in Appendix 4.

Territory 1

In relation to Third Party Liability, Collision and Comprehensive, the average rates charged by insurers to insureds for these coverages are within the proposed 2004 benchmarks, with the average rates for Third Party Liability and Collision at or near the benchmark midpoint. From this it can be concluded that the average rate charged by industry for these coverages is adequate based on the 2004 benchmarks. For Comprehensive, which averages near the top of the range, it is possible, based on the 2004 benchmarks, that companies can voluntarily achieve rate reductions for this coverage. Similarly, for Specified Perils the industry average rate exceeds the upper limit of the benchmarks and, again it is possible, based on the 2004 benchmarks, that companies can achieve rate reductions for this coverage voluntarily.

Territory 2

In relation to Third Party Liability, Collision and Comprehensive, the average rates charged by insurers to insureds for these coverages are within the proposed 2004 benchmarks, with Third Party Liability at the benchmark midpoint. Average rates for Collision and Comprehensive are at or near the upper limit of the benchmarks and average rates for Specified Perils are above the

upper limit of the Benchmarks. From this it can be concluded that the average rate charged by industry for Third Party Liability coverages is adequate. For the remaining coverages, Collision, Comprehensive and Specified Perils, which averages near the top of the range, it is possible, based on the 2004 benchmarks, that companies can voluntarily achieve rate reductions for these coverages.

Territory 3

In relation to Third Party Liability, Collision and Comprehensive, the average rates charged by insurers to insureds for these coverages are within the proposed 2004 benchmarks. The average rates for Third Party Liability and Comprehensive are very near the benchmark midpoint. From this it can be concluded that the average rate charged by industry for these coverages is adequate. For Collision, which averages near the top of the range, it is possible, based on the 2004 benchmarks, that companies can achieve rate reductions for this coverage voluntarily. Similarly, for Specified Perils the industry average rate exceeds the upper limit of the benchmarks and, again it is possible, based on the 2004 benchmarks, that companies can achieve rate reductions for this coverage voluntarily.

On an overall basis, the Board concludes that average rates for Third Party Liability, Collision, Comprehensive and Specified Perils are either adequate or more than adequate in relation to the proposed 2004 benchmarks.

The Board notes that, in a number of cases, the overall average rates lie near or above the upper limit of the 2004 benchmark. It must be borne in mind that the 2004 benchmarks for Collision, Comprehensive and Specified Perils are considerably lower than the 2001 benchmarks on which current rates are based. In addition, as the Board has not yet adopted these new benchmarks, insurers have not been afforded the opportunity to submit rate filings reflecting lower loss costs. As a result, there may be additional premium reductions on these coverages that can be made available to insureds once the benchmarks are adopted and insurers have filed new rates. Savings will depend on the individual insurer rates and the coverages maintained by the insured.

ACTUARIAL REPORT

The Board's actuarial consultants, Mercer Oliver Wyman of Toronto, were retained to conduct the actuarial study to measure the impact on automobile insurance rates of the initiatives identified in the Terms of Reference. The firm obtained a copy of the Closed Claim Study (CCS) data of the IBC, which formed the basis of the data used to quantify the various heads of damage for automobile accident claims and the quantum of settlement. The CCS study measured a sample of 1,533 claims closed by participating insurers during the period 1994 to mid 1996. While the study was dated, the information it provided was the best available and the actuaries deemed it to be reasonable and useable for purposes of this study, subject to the caveats and limitations listed in their report. This Study is attached as Appendix 5.

OTHER CONSIDERATIONS

In the context of a comprehensive reform package there are other issues which may be considered, including:

- Elimination of Age, Gender and Marital Status
- Uninsured Vehicles
- Underwriting Guidelines
- Placement in Facility Association
- Other Consumer Initiatives.

Elimination of Age, Gender and Marital Status

As indicated in the report of Mercer Oliver Wyman, the elimination of age, gender and marital status has an impact on rates an insured would otherwise pay. The elimination of age, gender, and marital status as rating variables will not result in a change in the overall level of premiums paid by Newfoundland and Labrador insureds. But it will result in changes (increases or decreases) in the amount of premiums paid by individual insureds. The amount of the premium changes will depend, in part, on how this option is implemented.

Option A assumes that insurance companies would be allowed to charge additional premiums for occasional operators under 25 years of age (as is the current practice), but unlike the current practice, would not be permitted to vary the additional premiums by gender. Option B assumes that insurance companies would not be allowed to charge additional premiums for occasional operators. There is a third alternative, which, because of a lack of data, the actuary was not able to quantify in the study; allowing insurance companies to charge additional premiums for all occasional operators, but not allowing insurance companies to vary the additional premiums by the age or gender of the occasional operator.

Government must decide how occasional operators will be rated in the future.

Presented below are estimates of the percentage of premium changes for Option A and Option B as they apply to the mandatory Third Party Liability coverage (i.e., the Bodily Injury coverage and the Property Damage coverage). Ranges are presented because the premium changes also depend upon where the insured vehicles are garaged (i.e. rating territory).

Estimated Average Premium Changes for Third Party Liability		
	Option A	Option B
Married Males Under 25	-20% to -26%	-17% to -24%
Single Males Under 25	-35% to -48%	-33% to -46%
Females Under 25	-7% to -18%	-4% to -16%
Insureds 25 or over	+2% to +3%	+5% to +6%

There will also be an adverse impact on rates of certain insureds through the elimination of age as a rating variable through the loss of a common discount provided by insurers, referred to by various companies as Mature Driver Discount, Seniors Discount or Age Discount. The elimination of gender or marital status has no impact on any discounts.

From a review of Board records it has been determined that companies representing 75% of the direct premiums written in the province provide some type of age discount. While qualifying criteria may vary between companies and not all insureds qualify for these discounts, it has been determined that the discounts offered, range from 5% to 20%, with the majority of companies offering a discount of between 10% to 15%. These discounts are based on the age of the insured with some discounts being available to insureds aged 25 and above. The elimination of age as a rating variable at this time will result in many insureds, predominantly those over age 50, paying higher premiums between 7%-26% depending on whether Option A or Option B is selected. Indeed, should this product change be implemented, many of these insureds may pay more for auto insurance even with the implementation of other changes, e.g. deductible.

In determining whether or not to proceed with the elimination of age as a rating factor, Government will need to carefully consider the resulting impact on realignment of premiums overall. In addition, depending on what action is taken, Government will have to decide how occasional operators are to be rated in future.

Uninsured Vehicles

Uninsured vehicles operate on the provincial highway system without the minimum statutory coverages of Third Party Liability and Uninsured Motorist yet are involved in a number of accidents that give rise to bodily injury and property damage claims. By not carrying insurance and not having paid the associated premium, owners of these vehicles do not contribute to the

pool of funds necessary to pay the damages for which they may be responsible. Currently injured parties may recover their losses from their own insurer under the Uninsured Motorist (Section D) section of their policy. In essence, responsible vehicle owners are paying twice for coverage, once for damages they cause and may be responsible for under their Section A coverage, and again, under their Section D coverage, for damages which may be occasioned on them by vehicle owners who fail to carry insurance.

Unfortunately there are no requirements for industry to keep statistical records concerning this issue. Additionally, the Royal Newfoundland Constabulary does not maintain province wide statistical information on the number of drivers operating vehicles without insurance. The Board was able to find only one source of information on this issue. At page 77 of the 1997 submission of the IBC entitled "Submission to the Select Committee to review the Property and Casualty Insurance Industry in Newfoundland and Labrador", the following is stated:

(iii) *Uninsured Automobile*

We recently conducted a study to determine the number of uninsured drivers in the province. Our study concluded that between 4.7 and 6.6% of drivers, or approximately 10,000 - 14,000 automobiles, are being operated on the roads in Newfoundland and Labrador without the mandatory \$200,000 third party, bodily injury and property damage insurance. Many speculate this figure is actually much higher.

If, as asserted by the IBC, the range of uninsured vehicles is between 4.7% and 6.6%, then the amount of premium not paid by those vehicle owners is estimated at between \$6,754,501 and \$9,485,043, a significant amount of money with which industry could reduce premiums. To put this in context, the total of all private passenger written premiums for Third Party Liability in Newfoundland and Labrador for 2002 was \$129,322,019. If, however, the numbers are higher as suspected by many in the industry, the premium reduction could be greater if all uninsured vehicles carried insurance or they were removed from the highways with a concurrent decline in the number of claims.

In response to the issue of uninsured drivers, the provincial government in December 1998 passed an amendment to the Highway Traffic Act increasing the fines for drivers found guilty of operating vehicles without insurance. This increase in fines may have deterred some offenders. The revenue collected from the fines are paid into the provincial treasury and not to the insurance industry, thus the fines are not helpful in defraying the societal costs imposed by uninsured vehicle owners.

In conjunction with possible reform initiatives, Government may wish to consider alternate means to address this issue, including possible vehicle forfeiture regulations similar to those used in cases involving fisheries and wildlife violations. Government may also wish to consider having these forfeiture regulations apply to repeat impaired drivers.

Underwriting Guidelines

Underwriting guidelines are established by regular and residual market insurers to provide direction to agents or brokers, and outline the types of business risks each company is willing to accept. While many of the guidelines are common across industry, a number vary from insurer to insurer. Generally speaking these guidelines specify certain parameters the insured must meet in order to qualify to be written for insurance coverage. Failure to meet the established parameters may result in the risk being declined by the insurer and unless another regular market insurer accepts the risk, the risk will be placed in the Facility Association or residual market segment where rate levels are much higher. Guidelines are normally set out in the insurer's underwriting manual but there are many instances where, during an audit, Board staff have determined that the insurer has implemented an unwritten underwriting guideline. As there are no statutory requirements for insurers to file these guidelines for review or approval, insurers are able to vary their rules at any time and in manner they deem appropriate.

Many of the underwriting guidelines currently in use deal with specific risk characteristics represented by the insured. Some of these would see a risk declined for a variety of reasons including the number of at-fault accidents or the number of Highway Traffic Act or Criminal Code convictions. These are objective measures and are directly related to the insured's physical hazard and operation of a vehicle. Other guidelines are not so objective. These may include

declining a risk based on: the age of the principal operator, either under age 25 or over age 70; policy declined by another insurer; prior payment history; or the number of operators on the vehicle. Additional examples of subjective underwriting guidelines are provided in Appendix 6.

The effectiveness of the removal of Age, Gender and Marital Status as rating variables to achieve reduced premiums for principal operators under the age of 25 could well be compromised depending on industry response through their underwriting guidelines. Indeed, without effective controls, these under age 25 operators may face premium increases if they are denied by the regular market and are forced to seek insurance through Facility Association.

Government may wish to consider appropriate means of regulating underwriting guidelines used in assigning risk and hence determining premiums that insureds pay.

Placement in Facility Association

Unlike regular market insurers, Facility Association as insurer of last resort cannot decline a risk presented to it. While one may think that Facility Association insures only the worst of the worst drivers, such is not the case. If declined by a regular market insurer, a risk does not necessarily need to be presented to the residual market for consideration but instead may be placed directly in Facility Association. Some of the reasons for placing an insured in the Facility Association are the same as outlined in Appendix 6 and may include:

- principal operator over 70;
- vehicle more than 10 years old with certain exceptions;
- lapse of insurance coverage of various lengths;
- principal operator unemployed for more than 6 months with certain exceptions; and
- any risk unless there is supporting business of any type.

Regular market insurers, in most cases offer seven driving record classifications, from zero years clear driver record to six+ years clear. Facility Association on the other hand offers six driving record classifications up to five+ years clear. Additionally, in order to qualify for a driving record five in Facility Association, the insured must meet very stringent requirements, such that few insureds achieve the highest driving record category.

Board staff undertook an analysis of data collected from a sample of Facility Association servicing carriers. This analysis showed that there was 1326 Facility Association private passenger automobile insurance policies issued or renewed by the sample carriers during the months of September to December 2003. Of these, 408 or 30.8% were Class 01(no driving to and from work) and Class 02 (driving to and from work) policyholders with driving records 4 or 5 (based on Facility Association's assessment) with no claims, no major convictions, and two or fewer minor Highway Traffic Act convictions. On the face of it, this does not appear to be the typical risk one may expect to find in a high risk group of insureds. In fact, a number of these policyholders, if insured in the regular market, could have qualified for a driving record 6.

To provide an indication of the impact on insureds of placement in Facility Association the Board has included in this report, in Appendix 7, a comparison of rates for drivers who are insured in the regular market with rates for drivers of similar risk but who are placed in Facility Association. The examples show the rates for a Class 02 and Class 01 driver with six clear years driving experience. These drivers represent the majority of drivers in the regular market.

Due to the application of certain restrictive underwriting guidelines by insurers, some policyholders in Territory 1, Class 02, with six clear years driving record, carrying Third Party Liability only and placed in Facility Association could see a 161% increase in premiums. The same policyholder located in Territory 2 could see a 135% increase and a similar policyholder in Territory 3 could face a 204% increase in premium. For a Class 01 policyholder with the same characteristics as the Class 02 policyholder, the increase in premiums could be 176% in Territory 1, 119% in Territory 2, and 177% in Territory 3.

As placement in the Facility Association market is entirely dependent on the actions of the regular market insurers, consistent with the Board's finding concerning underwriting guidelines, Government may wish to consider appropriate means of regulating placement of insureds in the Facility Association.

Other Consumer Initiatives

In addition to the issue of rates and other considerations described above, there are a number of other initiatives having direct consumer benefits which Government may wish to consider implementing. These include:

- Direct compensation from the first party insurer for not at-fault property damages.
- Option to pay policy premiums on a monthly basis.
- Protections for unearned premiums in the event of an insurer's insolvency.
- Improvements to claims adjustment and appraisal practices.
- Increased consumer education.
- Broker disclosure of information to consumers.

Government may wish to consider implementing some or all of these initiatives as part of a more comprehensive product change package.

SUMMARY CONCLUSIONS

1. Potential savings in the range of 10% to 21% are achievable through changes to the automobile insurance product. Actual savings will depend on the deductible level selected for TPL claims for bodily injury in combination with one or more of the other product changes modeled as follows:

- Scenario 1:** Application of a deductible at \$7,500; \$10,000; \$12,500; and \$15,000
Scenario 2: Using net instead of gross wage settlement
Scenario 3: Reducing Compensation due to Collateral Benefits (e.g. employment related)
Scenario 4: Combination of scenarios 1, 2 and 3.

Estimated Average Percent of Premium Savings Per Private Passenger Vehicle				
	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Net Wages Adjustment	No	Yes	No	Yes
Collateral Benefits	No	No	Yes	Yes
Deductible:	Yes	Yes	Yes	Yes
\$7,500	10.1%	12.2%	13.3%	15.4%
\$10,000	12.5%	14.6%	15.7%	17.8%
\$12,500	14.5%	16.6%	17.7%	19.8%
\$15,000	16.2%	18.3%	19.3%	21.4%

83% of all Bodily Injury Claims involves pain and suffering and the average amount paid for this component of each claim is \$13,117.

NOTE: Deductibles of \$2,500 and \$5,000 have not to date been fully modeled but premium savings per private passenger vehicle are estimated at 6.1% @ \$2,500 and 7.9% @ \$5,000 for deductible only.

2. Current average rate levels for all coverages including Third Party Liability, Collision, Comprehensive Specified Perils and Others are either adequate or more than adequate based on the Board’s 2004 Benchmark Study.

Increases/decreases vary by Territory and are outlined as follows:

Projected Rate Changes 2004 Benchmarks Without Product Reform			
	Territory 1	Territory 2	Territory 3
Third Party Liability	5.4%	1.5%	7.4%
Collision	-27.4%	-37.1%	-29.4%
Comprehensive	-18.8%	-18.8%	-18.8%
Specified Perils	-16.6%	-16.6%	-16.6%
Accident Benefits	4.0%	-10.8%	-10.8%
Uninsured Motorist	-10.8%	-10.8%	-10.8%
Total	-1.8%	-9.7%	-7.4%

Implementation of the 2004 Benchmarks by the Board may provide additional savings to those identified in 1. above. Savings will depend on the individual insurer rates and the coverages maintained by the insured.

3. **Efforts to provide lower insurance premiums to principal operator under age 25 through the elimination of age, gender and marital status as rating variables, will result in all insureds over the age of 25 facing premium increases or an erosion of premium savings generated by product change. These increases range from 2%-6% depending on the option selected in relation to charging for occasional operators. In addition, many senior drivers will face premium increases of between 5%-20% as a result of elimination of the mature driver discounts, which are age related. The elimination of age as a rating variable will result in many insureds, predominately those over 50, paying higher premiums between 7%-26%. While other jurisdictions have implemented this initiative, Government will need to give careful consideration to the impact of eliminating age as a rating factor before deciding to proceed. In addition, depending on what action is taken, Government will have to decide how occasional operators are to be rated in future.**

4. **Other jurisdictions have implemented a variety of reform initiatives including rate roll backs, rate freezes, capped awards for pain and suffering, and other initiatives. Based on the potential savings and other considerations outlined in this report Government may wish to consider one or more similar reform proposals. As these are issues of public policy for Government's choosing, outside of the information contained in this report the Board makes no recommendations on particular reform initiatives.**

5. **The analysis in this report is based on data contained in the most recent Closed Claims Study conducted in 1998 (using 1996 information) by the insurance industry. This data source currently provides the latest and most detailed information available to measure the impact on loss costs and hence premiums. The Board recommends Government require industry to conduct a further Closed Claims Study under the direction of the Superintendent of Insurance and the Board as to the Terms of Reference for the study and the data to be collected.**

6. **Government should consider implementation of other reform initiatives which provide potential consumer benefits. These may include:**
 - (a) **Direct compensation from the first party insurer for not at-fault property damages.**
 - (b) **Option to pay policy premiums on a monthly basis.**
 - (c) **Protections for unearned premiums in the event of an insurer's insolvency.**
 - (d) **Improvements to claims adjustment and appraisal practices.**
 - (e) **Increased consumer education.**
 - (f) **Broker disclosure of information to consumers.**

NEXT STEP

7. **In accordance with the Terms of Reference, the Board will post this report on its website enabling comment from industry and interested parties for a two-week period. A summary report of the comments received will then be submitted to Government one week following.**

Newfoundland & Labrador

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